



**MCI Telecommunications  
Corporation**

1801 Pennsylvania Avenue, NW  
Washington, DC 20006  
202 887 2551  
FAX 202 887 2676

**Mary L. Brown**  
Senior Policy Counsel  
Federal Law and Public Policy

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May 4, 1999

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
445 12<sup>th</sup> Street S.W.  
Washington, D.C. 20554

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MAY 4 1999  
FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

Re: Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996; Policies and Rules Concerning Unauthorized Changes of Consumers Long Distance Carriers, CC Docket No. 94-129

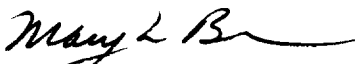
Dear Ms. Salas:

Pursuant to Section 1.44 and Section 1.419 of the Commission's rules, attached is an original and nine (9) copies of a Motion for Stay Pending Judicial Review to be filed in the above-captioned docket.

These copies replace an original and nine copies that were filed this morning, but that erroneously did not include an attached affidavit.

Please acknowledge receipt by affixing an appropriate notation on the copy of the Motion for Stay furnished for such purpose and remit same to bearer.

Sincerely,

  
Mary L. Brown

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**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

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In the Matter of )  
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Implementation of the Subscriber Carrier )  
Selection Changes Provisions of the )  
Telecommunications Act of 1996 )  
 )  
Policies and Rules Concerning Unauthorized )  
Changes of Consumers by Long Distance )  
Carriers )

CC Docket No. 94-129

**MOTION FOR A STAY PENDING JUDICIAL REVIEW**

Mary L. Brown  
MCI WorldCom, Inc.  
1801 Pennsylvania Ave. NW  
Washington, D.C. 20006

Jenner & Block  
Mark D. Schneider  
Jodie L. Kelley  
Jeffrey I. Ryen  
601 13th Street, N.W., Suite 1200  
Washington, DC 20005

*Counsel for MCI WorldCom, Inc.*

Dated: May 4, 1999

## SUMMARY

Movant MCI WorldCom respectfully requests that the Commission stay pending judicial review the liability rules adopted in the Second Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 94-129. Movant has filed a petition in the United States Circuit Court of Appeals for the District of Columbia seeking to vacate and remand these rules, MCI WORLDCOM, Inc. v. Federal Communications Commission, et al., No. 99-1125, and is likely to succeed on the merits in that case. Movant also satisfies the equitable requirements for issuance of a stay. If the Commission declines to grant a stay, MCI WorldCom intends promptly to move for a stay in the Court of Appeals.

MCI WorldCom is likely to succeed on the merits in overturning the liability rules on one or more of the grounds it has raised in the court of appeals. First, the rules undermine the statutory scheme set out in § 258 of the Telecommunications Act, 47 U.S.C. § 258(a). Congress there created incentives for the preferred carrier to protect its customers from unauthorized carrier charges by allowing the preferred carrier to collect from the unauthorized carrier all charges it collected from the customer. The Commission's rules undermine this scheme by absolving the customer from paying any charges at all during the first 30 days of service, and, in the event that the customer does pay the unauthorized carrier, by refusing to allow the preferred carrier to keep all charges it collects from that carrier. Second, the Commission had previously rejected just such an absolution scheme, but in the Order it does not articulate a reasoned explanation for its change of direction. Third, the new rules are irrational. They impose extraordinary burdens upon (and create conflicts of interest for) the preferred carrier, requiring it to adjudicate its own

customers' slamming complaints, when it obviously stands to gain by finding the complaints meritorious.

Equally irrational is the Order's implementation schedule, which requires all carriers to implement the liability rules by May 17, 1999, even though the systems necessary to implement the re-rating cannot possibly be developed by that date. This deadline is especially irrational given that the Order acknowledges that the public would be better served if a privately-funded neutral third party administrator handled slamming complaints, and the Commission has offered to waive its unworkable and irrational rules if such a "TPA" proposal were implemented. MCI WorldCom along with other carriers have made just such a proposal, and it is irrational to require them to undertake the extraordinary effort necessary to implement the Order's procedures while their requests that those very procedures be waived is pending at the Commission, and is likely to be granted.

Finally, MCI WorldCom plainly meets the equitable requirements for a stay. The Commission's rules require MCI WorldCom to spend millions of dollars to implement a system by May 17 when the FCC is likely, shortly thereafter, to waive the very rules the system is designed to implement, and at the same time it is reconsidering those deeply flawed rules. The inevitable result of compliance with the liability rules is that MCI WorldCom and other carriers will waste millions of dollars struggling to patch together an interim process to comply with rules that are not likely to survive either the carriers' requests for a waiver, the carriers' requests for reconsideration, or MCI WorldCom's petition for judicial review. Premature compliance also will generate consumer confusion and dissatisfaction. By avoiding the confusion and dissatisfaction the liability rules will promote, a stay will greatly benefit the public, while harming no one.

## TABLE OF CONTENTS

STATEMENT OF THE CASE .....	2
ARGUMENT .....	6
I.    MCI WorldCom Is Likely To Prevail On The Merits. ....	7
II.   MCI WorldCom And Others Would Suffer Irreparable Harm If The Slamming Order Is Not Stayed .....	13
III.  The Public Interest Would Be Served And No Other Party Would Be Harmed By The Grant Of A Stay .....	16
Conclusion .....	18

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Implementation of the Subscriber Carrier	)	
Selection Changes Provisions of the	)	
Telecommunications Act of 1996	)	CC Docket No. 94-129
	)	
Policies and Rules Concerning Unauthorized	)	
Changes of Consumers by Long Distance	)	
Carriers	)	

**MOTION FOR STAY PENDING JUDICIAL REVIEW**

MCI WORLDCOM, Inc. ("MCI WorldCom"), though its undersigned counsel, moves the Federal Communications Commission (the "FCC" or the "Commission") to stay pending judicial review the liability rules set forth in the Second Report and Order (the "Order") issued on December 23, 1998, in Second Report and Order and Further Notice of Proposed Rulemaking, In re Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996, 14 Communications Reg. (P & F) 799 (rel. Dec. 23, 1998) ("Order").<sup>1/</sup> The Order imposes on telephone carriers complex procedures that must be followed when a customer alleges "slamming" -- i.e., an unauthorized switch of his or her carrier. In particular, the Order alters the allocation of liability in "slamming" situations. Absent a stay, these rules and procedures are scheduled to take effect on May 17, 1999.

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<sup>1/</sup> The rules in question are 47 C.F.R. §§ 64.1100(c), 64.1100(d), 64.1170 and 64.1180. See Order, ¶ 56 & n.179.

## **STATEMENT OF THE CASE**

In § 258 of the Telecommunications Act of 1996 (the "Act"), 47 U.S.C. § 258(a), Congress expressly prohibited the unauthorized assignment of a consumer's telephone service to a particular carrier. Specifically, § 258(a) of the Act prohibits any carrier from "execut[ing] a change in a subscriber's selection of a provider of telephone exchange service or telephone toll service except in accordance with such verification procedures as the Commission shall prescribe." 47 U.S.C. § 258(a).

Section 258(b), in turn, establishes the remedy for any such unauthorized carrier change:

Any telecommunications carrier that violates the verification procedures described in subsection (a) of this section and that collects charges for telephone exchange [i.e., local] service or telephone toll [i.e., long-distance] service from a subscriber shall be liable to the carrier previously selected by the subscriber in an amount equal to all charges paid by such subscriber. . . .

47 U.S.C. § 258(b). Because the unauthorized carrier must disgorge any money it collects from a slammed customer, the statute eliminates the primary incentive to engage in slamming. Moreover, because preferred carriers are entitled to all charges paid to unauthorized carriers, the statute gives preferred carriers an incentive to pursue slamming complaints.

In July 1997, the Commission issued a Further Notice of Proposed Rulemaking to implement the requirements of § 258, and sought comment regarding carrier-to-carrier and carrier-to-subscriber liability for slamming. The Notice also sought comment on the efficacy of the FCC's existing rules on unauthorized conversions.

On December 23, 1998, the FCC released the Order, in which, over the objection of two Commissioners, it replaced its existing rules with a complex scheme that is in

derogation of the very statute it purports to implement. Ignoring the incentive structure of § 258(b), the Commission substituted what it called an “absolution” rule: no carrier is entitled to any compensation for the first thirty days after an unauthorized change occurs. Order ¶¶ 13-14, 18, 19.

Under the Commission’s rules, if the customer nevertheless does pay the unauthorized carrier, that carrier is required to remit to the preferred carrier all charges paid.<sup>2/</sup> Notwithstanding the statutory mandate that the preferred carrier is entitled to recover “all charges,” under the FCC’s scheme the preferred carrier must then return to the customer the difference between what the customer paid the unauthorized carrier and what she would have paid the preferred carrier. This process is commonly referred to as “re-rating.”

Two commissioners dissented from these portions of the Order, on the ground that the absolution and re-rating requirements plainly are inconsistent with the Act. See Order (Statement of Commissioner Michael K. Powell, concurring in part and dissenting in part) (“Powell Stmt”); Order (Dissenting Statement of Commissioner Harold Furchtgott-Roth) (“Furchtgott-Roth Stmt”). As they observed, under § 258(b) the unauthorized carrier is liable to the preferred carrier for all charges collected from the slammed consumer, and “[t]he statute provides for no exception to this all-inclusive language.” Powell Stmt at 2; see also Furchtgott-Roth Stmt at 2 (“the Commission’s rules directly conflict with the statute”). These Commissioners concluded that in requiring the preferred carrier to refund monies to

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<sup>2/</sup> The unauthorized carrier must also pay the preferred carrier any billing and collection expenses the preferred carrier incurs in its effort to collect the charges, and any charges associated with restoring the customer to his or her preferred carrier.



the consumer, the FCC “overstepped [its] legal authority.” Powell Stmt at 2; see also Furchtgott-Roth Stmt at 1-2.

Acknowledging that its absolution rule creates perverse incentives for customers to assert false claims of unauthorized conversions, the FCC fashioned an elaborate set of procedures designed to ascertain whether the conversion was, in fact, authorized. These procedures require the preferred carrier to investigate and adjudicate slamming complaints. If a customer has not paid the allegedly unauthorized carrier, the unauthorized carrier must submit a claim to the preferred carrier for the purportedly valid charges, and the preferred carrier then becomes responsible for reviewing the evidence and determining, within 60 days, whether a change was, in fact, authorized.

On the other hand, if the customer has paid the allegedly unauthorized carrier, the preferred carrier must obtain information much of which under current procedures it has no way to obtain: the name of the unauthorized carrier, a copy of the customer’s bill, usage data so that it can understand why the customer was billed the way it was, records of any amount the unauthorized carrier received from the consumer and any amount paid to switch the customer back to the preferred carrier. The preferred carrier then must “re-rate” the customer’s bill and provide the appropriate refund.

The Commission itself readily acknowledged that the elaborate regulatory scheme it devised is not, by any means, the best solution to the slamming problem. In the Order, the FCC proposed an alternative regime in which an independent third-party administrator (“TPA”) would investigate and resolve slamming complaints. Order ¶ 55. Finding that such a regime “might better serve to address our concerns,” *id.*, the Commission encouraged carriers to develop a TPA proposal and indicated that, if an adequate proposal

were submitted, it would “be open to receiving requests for waiver of the liability provisions of our rules for carriers that agree to implement” such an alternative. Id. The FCC then delayed the effective date of the liability rules until May 17, 1999. Id. at ¶¶ 18, 56 (90 days after publication in the Federal Register).

On March 30, 1999, on behalf of virtually the entire long-distance industry, MCI WorldCom filed a TPA proposal with the Commission.<sup>3/</sup> In that submission, and in a related filing the same day, MCI WorldCom explained that a TPA could be operational within six months. Accordingly, MCI WorldCom asked the Commission to defer implementation of the rules for that period to allow the TPA to be established. MCI WorldCom also requested, in the alternative, that the FCC enter a stay, because carriers simply could not comply with the existing rules by May 17. Through a supporting affidavit (attached hereto at Tab A), MCI WorldCom demonstrated that carriers lack the systems necessary to exchange the vast amounts of data necessary to comply with the re-rating portion of the rules.<sup>4/</sup> MCI WorldCom argued as well that, given that the Commission had indicated it would be willing to waive the liability rules in any event, it would be particularly

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<sup>3/</sup> The TPA proposal was supported by AT&T, Sprint, Excel, Quest, Cable & Wireless, Comptel, Telecommunications Resellers Association and Frontier.

<sup>4/</sup> Because the rates a customer would have been charged by the preferred carrier varies depending on the date and time of the call, the preferred carrier can only re-rate calls if the unauthorized carrier provides it with detailed call data. If only one or two complaints were processed each week, the preferred carrier could conceivably process this information manually. But as the Commission noted, literally tens of thousands of such complaints are processed each year. See Order ¶ 2. Thus, to implement the Commission’s rules, carriers would have to exchange electronically relevant price and call data. No system currently exists, however, that would allow them to do so. See Declaration of Sally Ann McMahon In Support of Joint Motion for Extension of Effective Date of Rules Or, in the Alternative, for a Stay (“McMahon Decl.”) ¶ 27 (originally filed with Motion for Extension of Effective Date, copy attached at Tab A). Such a system would be vast, electronically bonding each of the hundreds of carriers within the industry. See id.

irrational to require the industry to expend the vast resources needed to develop the envisioned systems.

At the same time, a dozen carriers filed petitions for reconsideration of the Order, demonstrating that the rules were contrary to the statute, irrational, and utterly unworkable,<sup>5/</sup> and MCI WorldCom filed the instant petition for review.

The Commission has not acted on MCI WorldCom's TPA proposal, its waiver request, its stay motion, or on any of the petitions for reconsideration. Consequently, the liability rules are scheduled to take effect on May 17, 1999.

### ARGUMENT

It is well settled that a stay should be granted where 1) the movant is likely to prevail on the merits of the appeal; 2) the movant will likely suffer irreparable harm absent a stay; 3) others will not be harmed if a stay is issued; and 4) the public interest will not be harmed. See Washington Metro. Area Transit Comm'n v. Holiday Tours, Inc., 559 F.2d 841, 842-43 (D.C. Cir. 1977). "The test is a flexible one." Population Inst. v. McPherson, 797 F.2d 1062, 1078 (D.C. Cir. 1986). Relief should be granted if a movant demonstrates "either a high likelihood of success and some injury, or vice versa." Id. (citing Cuomo v. United States Nuclear Regulatory Comm'n, 772 F.2d 972, 974 (D.C. Cir. 1985)). An "absolute certainty of success" on the merits is not required. Id. Indeed, a stay should issue "even though [the Court's] approach may be contrary to movant's view on the merits," as long as the movant makes a substantial showing on the other factors. Washington Metro. Area Transit, 559 F.2d at 843. Each of the criteria for a stay is easily satisfied here.

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<sup>5/</sup> In support of its stay motion before the Commission, MCI WorldCom cited the filing of the pending petitions for reconsideration.

**I. MCI WorldCom Is Likely To Prevail On The Merits.**

MCI WorldCom will prevail on its legal claim that the Commission acted arbitrarily, capriciously and unlawfully by adopting rules that establish the liability of customers and carriers in the event of an unauthorized carrier change, and that establish the procedures that carriers must follow when a customer claims an unauthorized conversion. See 5 U.S.C. § 706(2)(A) (“[T]he reviewing court shall . . . hold unlawful and set aside agency action, findings, and conclusions found to be . . . arbitrary, capricious, an abuse of discretion, or otherwise not in accordance with law.”). We discuss these dispositive legal claims seriatim.

**A. The Order Undermines The Statutory Scheme Prescribed In § 258.**

Section 258(b) was enacted by Congress in 1996 in direct response to the Commission’s existing slamming rules. While these rules allowed unauthorized carriers to collect from customers the amount of charges the customer would have paid if the unauthorized change had never occurred, they did not require the unauthorized carrier to transfer any monies to the preferred carrier. See In re Policies and Rules Concerning Unauthorized Changes of Consumers’ Long Distance Carriers, Report and Order, 10 F.C.C.R. 9560, ¶ 37 (1995) (“1995 Order”). In enacting § 258(b), Congress recognized that permitting unauthorized carriers to retain charges they collect from customers -- and thereby profit from the “slam” -- encouraged slamming and removed any incentive for preferred carriers to police against slamming. Section 258(b) addressed this concern by requiring unauthorized carriers to compensate preferred carriers for the entire amount the customer paid the unauthorized carrier, thereby removing the profit from slamming and

creating an incentive for preferred carriers to protect their customers from the offensive business practices at issue.

The Commission's new liability rules, however, eviscerate this incentive scheme and supplant it with a wholly irrational scheme of the Commission's own creation. As two Commissioners stated in dissent, the rule absolving customers of liability for the first 30 days after the unauthorized conversion will discourage the preferred carrier from policing slamming practices because there will frequently be no payments by the customer to the unauthorized carrier for the preferred carrier to collect. See Furchtgott-Roth Stmt at 2 and Powell Stmt at 2. The new rules also unlawfully transfer the "policing" role in cases where a customer has not made any payments from the preferred carrier to the customer herself. Order ¶ 20. This is not even remotely similar to the incentive scheme set out in the statute.

Additionally, the Commission's re-rating rule requiring a preferred carrier to refund to the customer any amount collected from the unauthorized carrier that exceeds what the customer would have paid had it not been slammed directly conflicts with § 258(b)'s explicit requirement that the preferred carrier is entitled to recover "all charges" paid by the customer after the unauthorized change, and also alters the incentive scheme that lies at the heart of the statute.

It was arbitrary and capricious and directly contrary to the statute for the Commission to substitute for the rational remedial scheme imposed by the Congress an inconsistent and incoherent scheme of its own.

**B. The Commission's Absolution Rule is Arbitrary and Capricious.**

Without reasoned explanation, the Commission adopted the absolution rule, allowing slammed customers free telephone service for 30 days, despite having explicitly

rejected absolution as a policy matter in its 1995 Order. See 1995 Order ¶ 37. This it cannot do. See Telecommunications Research and Action Ctr. v. FCC, 800 F.2d 1181, 1184 (D.C. Cir. 1986) (“When an agency undertakes to change or depart from existing policies, it must set forth and articulate a reasoned explanation for its departure from prior norms.”). Indeed, many of the justifications that the Commission now provides in support of absolution it specifically rejected in the 1995 Order. For example, the Commission now justifies absolution based on the fact that customers deserve some compensation “for the time, effort, and frustration they experience as a result of being slammed, as well as for the loss of choice and privacy.” Order ¶ 21. In the 1995 Order, however, the Commission rejected this very ground as justification for absolution. See 1995 Order ¶ 37.

The Commission also fails to explain why it has now concluded that it makes sense to allow customers who receive service not to pay for that service. In the 1995 Order, the Commission concluded to the contrary that when a customer has been slammed, she nevertheless still receives a service for which she should pay. See 1995 Order ¶ 37. The Commission now takes the opposite view, but with no articulated rationale.

Finally, the Commission fails to explain rationally the perverse subscriber incentives created by its so-called absolution rule. The rule provides an incentive for customers not only to lodge false slamming claims in the hope of receiving free service for the 30-day period, but also to delay reporting unauthorized changes in order to maximize their period of free phone service. The Order does not even attempt to address these compelling concerns.

**C. The Commission’s Procedures, And The Timetable For Their Implementation, Are Arbitrary And Capricious.**

As if all of that were not enough, the Commission's rules create a complex, immensely burdensome, and inherently unfair set of procedures that carriers must follow once a customer complains that an unauthorized change has occurred. As a practical matter, the Commission's rules place almost the entire burden of addressing the slamming complaint on the customer's preferred carrier, requiring that carrier both "to provide relief to its slammed subscribers and to determine whether its subscriber was slammed." Order ¶ 55. Moreover, the timetable for achieving compliance with these new procedures is entirely unreasonable, and no evidence on the administrative record supports the FCC's understanding that the rules can, as a practical matter, be implemented within 90 days.

Under the Commission's scheme, when a customer reports an unauthorized change, the preferred carrier must determine whether an unauthorized change has occurred. Id. ¶ 42. But the Commission provides no rational basis for assigning this investigatory and adjudicative role to the customer's preferred carrier. Equally troubling is its failure to explain why the preferred carrier alone should have to bear the administrative expense and burden of resolving the dispute.

The Commission also fails to acknowledge, much less address, the inherent conflict of interest created by its approach. After all, if the preferred carrier agrees that the customer did not authorize the carrier change, it gets the customer back, and also is able to collect any fees that the customer has paid to the unauthorized carrier. On the other hand, if the preferred carrier concludes that the customer was wrong and the carrier change was authorized, the preferred carrier loses both the customer and the revenue, and most probably any chance to win back the customer in the future.

The Order fails to address this significant conflict of interest, and is devoid of any safeguards to mitigate these incentives for self-dealing. The rules merely state that the preferred carrier “shall conduct a reasonable and neutral investigation” into the customer’s claim, and that if an unauthorized carrier contends that the preferred carrier’s investigation or resolution of the claim is “in any way improper or wrong,” it has the option of filing a § 208 complaint with the Commission. Id. ¶ 42. Given the huge number of disputed carrier changes that will need to be resolved annually under the Order’s new procedures, and the biases built into the Commission’s procedures, this is a recipe for disaster.

The Commission’s timetable for implementation of its slamming rules and procedures also lacks any rational basis, and is therefore arbitrary and capricious. The new rules require the preferred carrier to make a difficult calculation every time one of its customers claims to have been “slammed.” Specifically, it must determine what that customer would have paid had it been billed by the preferred carrier, and refund to the customer the difference between that number and the amount the customer in fact paid to the unauthorized carrier. Because the customer’s charges might vary depending on the date and time of the call, the preferred carrier can only “re-rate” calls if the unauthorized carrier provides it with detailed call data. If only one or two complaints were processed each week, and if the unauthorized carrier were to cooperate, the preferred carrier conceivably could process this information manually. But as the Commission noted, literally tens of thousands of such complaints are processed each year. See Order ¶ 2.

Thus, to implement the Commission’s rules, carriers of any size will have no choice but to develop electronic systems that interconnect with other carrier’s billing and usage systems, so that they can exchange relevant price and call data electronically. But under the



current practice, the preferred carrier generally is not even aware that its customer has been “slammed,” and does not know which competitor has taken away the customer. The new rules are silent about how the preferred carrier is to obtain this information, and it is silent about the fact that no system currently exists that would allow for the exchange of the necessary billing and usage data. McMahon Decl. ¶ 27.

Though fully apprised of these undisputed facts, the Commission has ordered that the new slamming rules and procedures become effective 90 days after Federal Register publication of the Order; that is, by May 17, 1999. *Id.* ¶¶ 18, 56. No record evidence supports the proposition that this is a reasonable deadline, and it is not. Compliance with that deadline simply is not feasible. McMahon Decl. ¶ 22.

The FCC’s time frame is all the more irrational because pursuant to the Commission’s own rules, carriers such as MCI WorldCom that take part in the TPA system are likely to be given waivers excusing them from these burdensome requirements before they have been able to construct the necessary computer systems, but after the May 17 compliance deadline. Absent a stay, while that proposal and waiver request are pending before the Commission, the Commission’s rules require MCI WorldCom and other carriers to develop elaborate systems and processes to comply with rules that are likely to be waived before those systems are ever even implemented. The Commission is well aware of all of

this, yet refuses to concern itself with the irrationality of its compliance schedule.<sup>6/</sup> This is the height of arbitrary and capricious agency action.

**II. MCI WorldCom And Others Would Suffer Irreparable Harm If The Liability Rules Are Not Stayed.**

As is readily apparent from the previous discussion, the equities here overwhelmingly favor the entry of a stay. To comply with the liability rules, MCI WorldCom would have to spend millions of dollars, which it could never recover, to develop computer systems that are likely to prove unnecessary. The requisite systems would enable MCI WorldCom to process and exchange with other carriers the detailed billing, collection and usage information needed for re-rating. But if, as is likely, the FCC ultimately accepts MCI WorldCom's waiver and allows it to opt out of the FCC procedures, or if those procedures are changed on reconsideration or on appeal, these resource-draining efforts will be for naught.

The great expense necessary to implement the current rules in and of itself powerfully supports MCI WorldCom's equitable entitlement to a stay because, absent a stay, MCI WorldCom will be forced to "incur compliance costs while the possibility of changes to [these] requirement[s] still exists." Order, In re Regulatory Treatment of LEC Provision of Interexchange Services Originating in the LEC's Local Exchange Area, 13 F.C.C.R. 6427, ¶ 3 (1998); see also Memorandum Opinion and Order, In re Rules and

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<sup>6/</sup> As previously indicated, at the same time it filed its TPA proposal and request for a waiver, MCI WorldCom also filed with the Commission a request that it extend the May 17 deadline to give the Commission the opportunity to consider, and the industry an opportunity to implement, the TPA proposal. At the same time, MCI WorldCom pointed out the many infirmities of the Commission's regulations, and the fact that many carriers had filed petitions for reconsideration of the Commission rules. But the Commission has refused to act on MCI WorldCom's motion for extension of time.

Policies Regarding Calling Number Identification Service -- Caller ID, 11 F.C.C.R. 17466, ¶ 6 (1996) (staying application of rule pending reconsideration because the requirements “may be modified as a consequence of information received in response to the . . . Reconsideration Petition”); Memorandum Opinion and Order, In re Rules and Policies Regarding Calling Number Identification Service -- Caller ID, 13 F.C.C.R. 5137, ¶ 1 (1998) (staying application of rule “until the Commission addresses [a pending] petition for reconsideration”).

Moreover, the harm here plainly is irreparable. MCI WorldCom will be unable to recoup the money it spends to create the systems necessary to comply with the Order. Even if it chooses to pass some of these costs on to its customers, it will never be possible to determine the extent to which it was successful in recovering its costs. See Brenntag Int'l Chemicals, Inc. v. Bank of India, No. 98-7992, -- F.3d --, 1999 WL 242261, at \*3 (2d Cir. Apr. 26, 1999) (finding irreparable harm in an action involving only monetary injury “where, but for the grant of equitable relief, there is a substantial chance that upon final resolution of the action the parties cannot be returned to the positions they previously occupied”).

MCI WorldCom stands to lose more than money if a stay is not granted. At present no group of MCI WorldCom employees is more in demand than its “information technology,” or computer systems, development staff. These are the employees who build the systems that enable MCI WorldCom to “interconnect” with the regional local telephone companies and so to compete in local telephone markets, and that are addressing the substantial “Y2K” issues to assure that MCI WorldCom’s customers continue to receive the service they deserve in the next century. MCI WorldCom now is devoting most of its substantial “IT” resources to these and other critical efforts. It would be a wholly

unnecessary blow to MCI WorldCom and its customers to have to divert important company resources toward development of an elaborate system to resolve slamming complaints that, in the end, will most likely never even be implemented.

Additionally, because MCI WorldCom and all other industry participants cannot possibly have had the computer systems functioning by May 17, see McMahon Decl. ¶ 22, absent a stay, MCI WorldCom will have to train a workforce to perform these processing functions manually on an interim basis -- through a series of faxes, pocket calculators and other makeshift arrangements. Not only will this undertaking cost MCI WorldCom money that it can never recover, but manual processing inevitably results in errors and delay, causing customer dissatisfaction with MCI WorldCom. The loss of customer goodwill that would be the inevitable result if a stay is denied is, of course, a well-recognized form of irreparable harm. See, e.g., Tom Doherty Assocs., Inc. v. Saban Entertainment, Inc., 60 F.3d 27, 38 (2d Cir. 1995).

Finally, the rules place MCI WorldCom in the untenable position of being forced to seek to do the impossible. Under the circumstances, the company will likely not be able adequately to satisfy its legal obligations. As a matter of law, this, too, constitutes irreparable harm. See Ruiz v. Estelle, 650 F.2d 555, 573 (5th Cir. 1981) ("We also conclude that [defendant] will suffer irreparable injury if this portion of the injunction is not stayed pending appeal. . . . Given the magnitude of the structural and administrative changes that the injunction would require, . . . it is virtually impossible for [defendant] to implement and complete a type of reorganization plan [within the time] called for by the district court. . . ." (internal quotation omitted)).

All of this irreparable harm is imminent. MCI WorldCom and other carriers should not be subjected to this harm in advance of a conclusive determination of the Order's validity and applicability.

**III. The Public Interest Would Be Served And No Other Party Would Be Harmed By The Grant Of A Stay.**

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The public will suffer the adverse consequences of the FCC's irrational liability rules if they are not stayed. As discussed above, implementation of the liability rules would impose significant costs on carriers that are likely to be passed on at least in part to consumers. Moreover, one of the goals of the Commission's liability rules was to mitigate the confusion and uncertainty faced by an injured customer. By insisting on the immediate implementation of rules that 1) will likely change on reconsideration; 2) will likely no longer apply in any event once a private third party administrator system is implemented; and 3) simply cannot be implemented in a workable manner in the time allowed, the Commission invites confusion that disserves the public.

There is currently in place a system for resolving slamming complaints. The public interest is best served by maintaining that system until such time as a new permanent system is settled upon and can be properly implemented. The Commission itself has acknowledged in a related context that "the public interest would best be served by ruling on the issues raised in the pending petitions for reconsideration before requiring affected parties to take actions to comply." Order, In re Policies and Rules Concerning Unauthorized Changes of Consumers' Long Distance Carriers, 11 F.C.C.R. 856, ¶ 2 (1995). A stay preserving the status quo would prevent the confusion and added expense consumers will suffer if carriers are forced prematurely to seek to comply with an incoherent regime imposed by the

Commission -- confusion and expense which would be utterly needless if the Order is overturned on the merits, or if the Commission accepts the alternative private third party administration scheme that is currently under consideration.

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MCI WorldCom has done everything the FCC has asked in this matter and yet is left in an impossible position. The FCC acknowledged that its rules were problematic, and asked carriers to propose alternative enforcement mechanisms. It invited carriers then to seek waivers of its rules. MCI WorldCom (along with most long-distance carriers) developed a TPA scheme, and filed the requisite waivers. Moreover, it filed these requests promptly, before 45 days of the 90-day period allowed by the Commission expired, allowing the Commission ample time to consider the waiver request and the TPA proposal. In the interim the FCC has received over a dozen requests to reconsider its ill-conceived Order. Under the circumstances, it is difficult to understand why the Commission will not stay the liability rules.

## CONCLUSION

For all these reasons, the liability provisions of the Order should be stayed pending judicial review.

Respectfully submitted,

Mary Brown

MCI WorldCom, Inc.  
1801 Pennsylvania Ave., N.W.  
Washington, D.C. 20006  
202-887-2551

  
Mark D. Schneider

Jodie L. Kelley  
Jeffrey I. Ryen  
Jenner & Block  
Suite 1200  
Washington, D.C. 20005  
202-639-6000  
  
Counsel for MCI WorldCom

Dated: May 4, 1999

**Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554**

In the Matter of	)	
	)	
Implementation of the Subscriber Carrier	)	
Selection Changes Provisions of the	)	
Telecommunications Act of 1996	)	CC Docket No. 94-129
	)	
Policies and Rules Concerning Unauthorized	)	
Changes of Consumers by Long Distance	)	
Carriers	)	

**DECLARATION OF SALLY ANN MCMAHON  
In Support of Joint Motion for Extension of Effective Date of Rules  
Or, in the Alternative, for a Stay**

I, Sally Ann McMahon, being first duly sworn upon oath, do hereby depose and state as follows:

1. My name is Sally Ann McMahon. I am Executive Director, Financial Operations at MCI WorldCom Inc. ("MCI WorldCom"). My areas of responsibilities include quality management for mass markets, planning for telemarketing and customer service, and back-office processing.

2. I am head of the team at MCI WorldCom that has been charged with implementing the new FCC unauthorized customer conversion rules (the "Rules") set forth in the Second Order<sup>1/</sup> for the residential and small business markets. Over the past three months, I have also been part of an MCI WorldCom team that has worked closely with a telecommunications

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<sup>1/</sup> Second Report and Order and Further Notice of Proposed Rulemaking, In re Implementation of the Subscriber Carrier Selection Changes Provisions of the Telecommunications Act of 1996, Policies and Rules Concerning Unauthorized Changes of Consumers Long Distance Carriers, CC Docket No. 94-129, FCC 98-334 (rel. Dec. 23, 1998) ("Second Order").



industry group to design a system using an independent third party liability administrator ("TPA") to discharge carrier obligations for resolving unauthorized customer conversion disputes among carriers and consumers.

3. The purpose of my affidavit is twofold. First, I will explain why it will be impossible to develop and implement a TPA system by May 18, 1999, as contemplated by the FCC in the Second Order. Second, I will explain why the absence of industry standards and automated, electronic systems -- which will allow billing and other relevant information to be quickly and efficiently exchanged and processed between carriers, as required by the Rules -- make the Rules unworkable at this time, or at any time in the near future.

**The TPA System Will Not Be Developed And Implemented by May 18, 1999**

4. The TPA system would provide a single point of contact to resolve unauthorized customer conversion problems and would create a neutral body to resolve disputes regarding unauthorized customer conversion liability. I believe that the TPA system would benefit consumers, carriers and regulators.

5. It will be impossible, however, to develop and implement a TPA system by May 18, 1999, as designated by the FCC in its Second Order. Instead, it is my best estimate that it will take a minimum of six months -- beginning with the date the FCC approves the Joint Petition for Waiver -- for the TPA system to be in place and operational. My reasons for this time estimate are set forth below.

6. The industry group has developed -- as the FCC encouraged -- a basic scheme for a TPA system. Given the considerable resources needed to implement such a system, however, it would not have been prudent to begin implementing that scheme before the FCC

passed on the waiver petition. As soon as the FCC approves the Joint Petition for Waiver, the industry will begin this process.

7. The initial task for the industry will be to constitute an Industry Board that will govern the TPA. Given the number of participants and their differing positions, plus the novelty of the undertaking, this will likely require a number of meetings, and outside legal counsel will have to draft appropriate legal documents. The constituted Board will then have to develop bylaws and operating procedures for the TPA, and determine how to finance the TPA.

8. The Board will then begin the critical task of selecting and contracting with a vendor to serve as the TPA. The Board will initially have to write and issue a "Request for Proposal" ("RFP") from third-party vendors. The Board may decide to hire outside counsel or obtain other professional assistance to design the RFP and review the bids.

9. Once the RFP is issued, third-party vendors will likely have at least a month to submit bids. The Board may choose to meet with prospective vendors before and after the issuance of its RFP in order to ensure that vendors' bids are the most responsive they can be. Such meetings should help speed the selection process and enable faster implementation once a vendor is selected.

10. Once vendor bids are collected by the Board, bids will have to be properly evaluated and a vendor selected. A contract between the selected vendor and the Board will also have to be negotiated and drafted.

11. The TPA will then have the monumental task of developing and implementing a call center operation which can handle tens of thousands of unauthorized customer conversion complaints a year. The TPA's basic functions will include: (1) ensuring that a consumer is switched back to its preferred carrier; (2) ensuring that consumer credits and

carrier-to-carrier compensation are implemented efficiently and properly; (3) administering a nonbinding dispute resolution process between carriers and consumers; (4) determining whether an unauthorized conversion occurred; and (5) engaging in such monitoring and reporting as will be required to ensure the execution of its functions.

12. One of the TPA's first priorities will be to obtain space where the call center will be located and to build offices and workstations for its personnel. The TPA may choose to lease the call center space and may decide to subcontract with a company to run and manage call center operations.

13. The TPA will also have to hire and train personnel. This will take a significant amount of time, as the TPA will have to train its personnel how to judge whether unauthorized customer conversion complaints are legitimate or not. Such training is considerably more complex than simply teaching people about proper customer relations.

14. To become operational, the TPA will also have to develop and implement connectivity with all participating carriers, the FCC and state commissions. Consumers with unauthorized conversion complaints do not call just one place. Instead, they call the FCC, state commissions, participating carriers and local exchange carriers ("LECs") to complain about unauthorized conversions. Telephone connectivity between the TPA and the various commissions and carriers, therefore, is necessary to quickly transfer these calls to the TPA for resolution. Until this "hot transfer" capability is implemented, the FCC, state commissions, participating carrier and LECs will only be able to refer consumers to the TPA by providing the TPA's phone number and asking the consumer to call the TPA directly. By contrast, "hot transfer" capability will allow the FCC, state commissions, participating carriers and LECs to route calls immediately to the TPA without hanging up on the consumer.

15. The TPA and participating carriers will also have to be electronically connected in order to facilitate the transfer of vast amounts of data. For example, electronic data connectivity will allow carrier change verification information to flow quickly and easily between the TPA and participating carriers, and will also allow the exchange of consumer billing records and consumer payment histories

16. Electronic data connectivity between the TPA and participating carriers will further allow the TPA to monitor closely whether a consumer is switched back to its preferred carrier and whether consumer credits and carrier-to-carrier compensation are accomplished efficiently and properly.

17. Prior to opening for business, the TPA will also need to establish extensive operating systems that allow it to resolve unauthorized customer conversion disputes, reconcile consumer accounts, and direct consumer refunds and carrier-to-carrier compensation.

18. Furthermore, to protect against fraud, the TPA will need to develop a database of consumers who repeatedly complain about unauthorized conversions and the resolution of those complaints. The FCC's rules absolving consumers from liability to unauthorized carriers for the first thirty days after an unauthorized conversion occurs creates incentives for certain consumers to claim falsely that they have been converted without authorization. The TPA may also have reporting obligations to state and federal agencies and will have to implement databases to collect information relevant to those reports.

19. Undoubtedly, there will likely be many other activities that must occur and processes that must be put in place before the TPA system can become fully operational. Ninety days is simply an inadequate amount of time to begin an operation of this magnitude and make it fully functional and effective. Six months, at a minimum, is a more reasonable estimate.

20. Therefore, the FCC needs to delay implementation of the Rules for at least six months. The current unauthorized customer conversion system should remain in place during this period. It would create consumer confusion, divert needed resources and waste substantive efforts to have an interim set of procedures -- which are totally new and yet to be implemented by carriers -- in place for six months while carriers implement the TPA system.

**The Procedures Set Out In the FCC's Rules Are Unworkable At This Time**

21. The fundamental reason why the Rules cannot be implemented at this time is that they set forth procedures that will require massive amounts of data and information to be exchanged between carriers on a daily basis. But, at the present time: (1) no industry standards define the form in which this data should be transferred between carriers; and (2) no automated electronic systems are in place which will allow the data to be quickly and efficiently exchanged between carriers, and processed once it is exchanged.

22. Development and implementation of the standards, systems and processes will be very time-consuming and expensive. There is no question that MCI WorldCom and other carriers will be unable to satisfactorily implement the FCC's new system by May 18, 1999, the date on which the Rules take effect.

23. The Rules' re-rating requirement provides an excellent illustration of the complexities and difficulties involved in implementing the FCC's system. In instances in which a consumer pays a bill from an unauthorized carrier and the unauthorized carrier is unable to provide verification of an authorized change, the Rules require that the unauthorized carrier remit to the authorized carrier all charges paid by the consumer, and that the authorized carrier then refund or credit the consumer the difference between what it paid to the unauthorized carrier and

what the consumer would have paid the authorized carrier.<sup>2/</sup> In order to "re-rate" the consumer in this manner, the authorized carrier will need to obtain and manipulate large amounts of billing and invoice information from the unauthorized carrier.<sup>3/</sup>

24. For example, the authorized carrier will need the unauthorized carrier's call records for the consumer. These records indicate the dates, times and destinations of each of the consumer's calls. They are critical to the re-rating process because the two carriers will likely charge different amounts depending on the date, the day of the week, the destination, and the time each call was made. The authorized carrier also will need to acquire the unauthorized carrier's invoice summary. This summary will include any taxes and credits specific to the consumer's bill.

25. The systems that will be developed to accomplish re-rating must also have the ability to re-rate charges according to the rates that were in effect for the consumer at the time the consumer was converted without authorization. These rates may be different from the rates the carrier currently charges. At present, MCI WorldCom's systems do not store such historical data, and I am unaware of any automated, electronic mechanism that will allow carriers to perform re-rating analysis against rate plans that are no longer in effect.

26. MCI WorldCom and other major carriers currently process tens of millions of orders annually and receive thousands of unauthorized customer conversion complaints a year. I expect the number of complaints to increase over the next few years as consumers learn about

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<sup>2/</sup> Second Order ¶¶ 34, 38.

<sup>3/</sup> The authorized carrier will also need to receive detailed billing and invoice information from the alleged unauthorized carrier in instances where that carrier provides verification of an authorized change. Under the Rules, the authorized carrier must bill the consumer in the amount previously removed from the consumer's bill and then, upon payment, forward this amount to the alleged unauthorized carrier. See Second Order ¶ 42. Clearly, the authorized carrier cannot bill the consumer unless it has the alleged unauthorized carrier's billing and invoice information for that consumer.

the 30-day absolution rule and state commissions and carriers encourage unauthorized customer conversion complaints to be electronically filed. Regardless of legitimacy, MCI WorldCom will have to investigate every complaint.

27. With so many complaints, it will be logistically impossible for carriers to exchange and process on a manual basis the billing and invoice data necessary for re-rating a consumer. Instead, automated systems will have to be put into place whereby carriers can electronically exchange and process this data. At present, no such systems are in place, or even conceptually exist.

28. Before systems of this complexity can even be devised, the industry will have to develop uniform standards for formatting billing and invoice data. Every carrier has different methods and formats for billing and invoicing. Without uniform standards, a carrier will be forced to find a way to translate the data it receives from other carriers into a format which its internal systems can understand. Since new carriers are formed on a regular basis with new or updated systems, there is no way MCI WorldCom will be able to translate the data received from the hundreds of competing carriers without uniform standards.

29. Uniform standards will also be needed for the other types of records and data that the Rules require carriers to exchange. For example, billing and collection expenses, including attorneys' fees, claimed by the authorized carrier<sup>4/</sup> will have to be standardized in order to be effectively exchanged, processed and verified by carriers. Uniform standards will also be needed to facilitate and verify the transfer of funds between carriers.<sup>5/</sup>

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<sup>4/</sup> See Second Order ¶ 36.

<sup>5/</sup> See Second Order ¶¶ 23, 45.


30. Uniform, industry-wide standards are not a novel concept in the telecommunications industry. For many years, the Customer Accounts Record Exchange ("CARE") process has provided uniform standards for customer information and carrier change orders. But it took much more than three months to develop CARE, and the CARE process cannot accommodate the complex and variable information included in invoices and bills. Thus, CARE does not presently contain fields for any billing and invoice information. Moreover, CARE is limited at this time to ordering processes between LECs and interexchange carriers ("IXCs"). It will take a great amount of time and expense before CARE can accommodate invoicing and billing information between all carriers.

31. Until industry-wide standards are developed, carriers will not be able to begin to create internal systems for processing the billing and invoice data exchanged between carriers. To my knowledge, no carrier today has an automated system in place that will allow billing and invoice data to be electronically transferred to, and received from, another carrier in usable form, or that has the ability to re-rate another carrier's charges.

32. In sum, each carrier will have to individually develop internal systems to store, hold and transfer billing data, and to re-rate unauthorized calls. The development of such systems will take far more than three months to develop and could cost many millions of dollars. For these reasons, many aspects of the FCC's new unauthorized customer conversion rules, including in particular the re-rating provisions, cannot be implemented in three months.



I declare, under penalty of perjury, that the foregoing is true and correct. Executed on  
March 23, 1999.

  
Sally Ann McMahon

## **CERTIFICATE OF SERVICE**

I, Vivian Lee, do hereby certify that copies of the foregoing Motion for Stay were sent, on this 4th day of May, 1999, via first-class mail, postage pre-paid, to the following:

Chairman William E. Kennard\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW, 8th Fl.  
Washington, DC 20554

Glenn Reynolds\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW  
Washington, DC 20554

Commissioner Harold Furchgott-Roth\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW, 8th Fl.  
Washington, DC 20554

Alexander P. Starr\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW.  
Washington, DC 20554

Commissioner Michael K. Powell\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW, 8th Fl.  
Washington, DC 20554

Judy Boley\*\*  
Federal Communication Commission  
The Portals  
445 12th Street, SW, Room A1836  
Washington, DC 20554

Commissioner Susan P. Ness\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW, 8th Fl.  
Washington, DC 20554

Kathy Brown\*\*  
Federal Communications Commission  
The Portals  
445 12th Street, SW, 8th Fl.  
Washington, DC 20554

Anita Cheng\*\*  
Common Carrier Bureau  
Federal Communication Commission  
The Portals  
445 12th Street, SW, 8th Fl.  
Washington, DC 20554

ITS\*\*  
1231 20th Street, NW  
Washington, DC 20037

Dorothy Attwood\*\*  
Chief, Enforcement Division  
Federal Communication Commission  
The Portals  
445 12th Street, SW  
Washington, DC 20554

Kevin C. Gallagher  
360° Communications Company  
8725 W. Higgins Road  
Chicago, IL 60631

Rogena Harris  
Harisha Bastiampillai  
Helein & Associates, P.C.  
Counsel for ACTA  
8180 Greensboro Drive, Suite 700  
McLean, VA 22102

David A. Gross  
AirTouch Communications  
1818 N Street, Suite 800  
Washington, DC 20036

Gary L. Phillips  
Counsel for Ameritech  
1401 H Street, N.W., #1020  
Washington, DC 20005

Mark C. Rosenblum  
Peter H. Jacoby  
Attorneys for AT&T Corp.  
295 North Maple Avenue  
Room 3250J1  
Basking Ridge, NJ 07920

James G. Pachulski  
Stephen E. Bozzo  
Bell Atlantic Telephone Companies  
1320 North Court House Road  
Eight Floor  
Arlington, VA 22201

John T. Scott, III  
Crowell & Moring LLP  
Attorneys for Bell Atlantic Mobile, Inc.  
1001 Pennsylvania Avenue, N.W.  
Washington, DC 20004

M. Robert Sutherland  
Richard M. Sbaratta  
Attorneys for BellSouth Corporation and  
BellSouth Telecommunications, Inc.  
1155 Peachtree Street, N.E., Suite 1700  
Atlanta, GA 30309-3610

Danny E. Adams  
Rebekah J. Kinnett  
Kelley Drye & Warren LLP  
for Billing Information Concepts Corp.  
1200 19th Street, N.W., Suite 500  
Washington, DC 20036

Robert Taylor  
Brittain Communications International Corp.  
600 Jefferson. Suite 500  
Houston, TX 77002

Rachel J. Rothstein  
Paul W. Kenefick  
Cable and Wireless, Inc.  
8219 Leesburg Pike  
Vienna, VA 22182

Peter Arth, Jr., Lionel B. Wilson  
Mary Mack Adu, Helen M. Mickiewicz  
for the People of the State of California and  
for the PUC of the State of California  
505 Van Ness Ave.  
San Francisco, CA 94102

Christopher J. Wilson, Jack B. Harrison  
Frost & Jacobs LLP  
Attys for Cincinnati Bell Telephone  
2500 PNC Center  
201 East Fifth Street  
Cincinnati, OH 45202

John B. Adams  
Citizens Utilites Company  
1400 16th Street, NW  
Suite 500  
Washington, DC 20036

Carol Anne Bischoff  
Robert McDowell  
The Competitive Telecommunications Assn.  
1900 M Street, N.W., Suite 800  
Washington, DC 20036

Robert J. Aamoth  
John J. Heitmann  
Kelley Drye & Warren LLP  
Attys for CTA  
1200 19th Street, N.W., Suite 500  
Washington, DC 20036

Ian D. Volner  
Heather L. McDowell  
Venable, Baetjer, Howard & Civiletti, LLP  
Counsel for The Direct Marketing Assoc.  
1201 New York Avenue, N.W., Suite 1000  
Washington, DC 20005

J. Christopher Dance  
Robbin Johnson  
Excel Communications, Inc.  
8750 North Central Expressway  
Dallas, TX 75231

Pamela Arluk  
Marcy Greene  
Swidler & Berlin, Chartered  
Counsel for Excel Telecommunications, Inc.  
3000 K Street, N.W., Suite 300  
Washington, DC 20007

Cynthia B. Miller  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, FL 32399

Michael J. Shortley, III  
Attorney for Frontier Corporation  
180 South Clinton Avenue  
Rochester, NY 14646

Gail L. Polivy  
GTE Service Corporation  
1850 M Street, N.W.  
Suite 1200  
Washington, DC 20036

Richard McKenna  
GTE Service Operations  
600 Hidden Ridge, HQE03J27  
Irving, TX 75015

Jeffrey S. Linder  
Suzanne Yelen  
Wiley, Rein & Fielding  
Attorneys for GTE Service Corp.  
1776 K Street, N.W.  
Washington, DC 20006

Jonathan E. Canis  
Andrea D. Pruitt  
Kelley Drye & Warren LLP  
for Intermedia Communications Inc.  
1200 19th Street, N.W., Suite 500  
Washington, DC 20036

Gary L. Mann  
IXC Long Distance, Inc.  
98 San Jancinto Boulevard  
Suite 700  
Austin, TX 78701

Douglas W. Kinkoph  
LCI International Telecom Corp.  
8180 Greensboro Drive, #800  
McLean, VA 22102

Bryan G. Moorhouse  
Susan Stevens Miller  
Maryland Public Service Commission  
6 Saint Paul Street  
Baltimore, MD 21202

Karen Finstad Hammel  
Montana Public Service Commission  
1701 Prospect Avenue  
P.O. Box 202601  
Helena, MT 59620-2601

Linda F. Golodner  
Susan Grant  
National Consumers League  
1701 K Street, N.W., Suite 1200  
Washington, DC 20006

Timothy S. Carey, Ann Kutter  
Kevin M. Bronner, Douglas W. Elfner  
Stephen A. Berger  
New York State Consumer Protection Board  
5 Empire State Plaza  
Albany, NY 12223-1556

Lawrence G. Malone  
New York State Dept. of Public Service  
Three Empire State Plaza  
Albany, NY 12223-1350

Robert P. Gruber  
Antoinette R. Wike  
Vickie L. Moir  
Public Staff-North Carolina Utilities Comm.  
P.O. Box 29520  
Raleigh, NC 27626-0520

Robert Tongren  
David C. Bergmann  
Ohio Consumers' Counsel  
77 South High Street, 15th Floor  
Columbus, OH 43221-4568

Phillip F. McClelland  
Irwin A. Popowsky  
Office of Consumer Advocate  
1425 Strawberry Square  
Harrisburg, PA 17120

Joseph Kahl  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, NJ 08540

Jean L. Kiddoo, Dana Frix  
Marcy Greene  
Swidler & Berlin Chartered  
Counsel for RCN Telecom Services, Inc.  
3000 K Street, N.W. Suite 300  
Washington, DC 20007

Wendy S. Bluemling  
The Southern New England Telephone Co.  
227 Church Street  
New Haven, CT 06510

Robert M. Lynch, Durward D. Dupre  
Mary W. Marks, Marjorie M. Weisman  
Attys for Southwestern Bell Telephone Co.  
Pacific Bell and Nevada Bell  
One Bell Center, Room 3520  
St. Louis, Missouri 63101

Nancy C. Woolf  
Jeffrey B. Thomas  
Atty for Southwestern Bell Telephone Co.  
Pacific Bell and Nevada Bell  
140 New Montgomery St., Room 1529  
San Francisco, CA 94105

Leon M. Kestenbaum  
Jay C. Keithley  
Michael C. Fingerhut  
Counsel for Sprint Corporation  
1850 M Street, N.W., 11th Floor  
Washington, DC 20036

Charles C. Hunter  
Catherine M. Hannan  
Hunter Communications Law Group  
for Telecommunications Resellers Assoc.  
1620 I Street, N.W., Suite 701  
Washington, DC 20006

Suzi Ray McClellan  
Kristen Doyle  
Texas Office of Public Utility Counsel  
P.O. Box 12397  
Austin, TX 78711-2397

Pat Wood, III  
Judy Walsh  
Public Utility Commission of Texas  
1701 N. Congress Avenue, 7th Floor  
Austin, TX 78711

David R. Poe  
Yvonne M. Coviello  
LeBoeuf, Lamb, Greene & MacRae LLP  
for Time Warner Comm. Holdings, Inc.  
1875 Connecticut Avenue, N.W., Suite 1200  
Washington, DC 20009

Paul B. Jones  
Janis Stahlhut  
Donald F. Shephard  
Time Warner Comm. Holdings, Inc.  
290 Harbor Drive  
Stamford, Connecticut 06902

Michael R. Gardner  
William J. Gildea, III  
Law Offices of Michael R. Gardner, P.C.  
Attys for TPV Services, Inc.  
1150 Connecticut Avenue, N.W., Suite 710  
Washington, DC 20036

Kathryn Marie Krause  
Dan L. Poole  
Attorneys for US West, Inc.  
1020 19th Street, N.W., Suite 700  
Washington, DC 20036

Mary McDermott, Linda Kent  
Keith Townsend, Hance Haney  
U.S. Telephone Association  
1401 H Street, N.W., Suite 600  
Washington, DC 20005

Peter M. Bluhm  
State of Vermont Public Service Board  
112 State Street  
Drawer 20  
Montpelier, VT 05620-2701

Edward C. Addison  
Virginia State Corporation Comm. Staff  
P.O. Box 1197  
Richmond, VA 23218

Timothy R. Graham, Joseph M. Sandri, Jr.  
Robert G. Berger, Russell C. Merbeth  
Winstar Communications, Inc.  
1146 19th Street, N.W., Suite 200  
Washington, DC 20036

John P. Finedore  
Assistant Director  
U.S. General Accounting Office  
441 G Street NW, Mail Stop 2723  
Washington, DC 20548

Michael R. Volge  
Assistant General Counsel  
U.S. General Accounting Office  
441 G Street, NW  
Washington, DC 20548

H. Gilbert Miller  
Vice President  
Center for Telecommunications and  
Advanced Technologies  
Mitretek Systems  
7525 Colshire Drive  
McLean, VA 22101

Michael Dorrian  
Director, Business Development  
Communications Industry Services  
Lockheed Martin  
1200 K Street, NW  
Washington, DC 20005

Andre LaChance  
GTE Service Corporation  
1850 M Street, N.W. #1200  
Washington, DC 20036

John Windhausen  
President  
ALTS  
888 17th Street, N.W.  
Washington, DC 20006

Neil Fishman  
Office of the Attorney General  
55 Elm Street  
Hartford, CT 06106

Dave Gillis  
Office of the Attorney General  
P.O. Box 7857  
Madison, WI 53707

Joan Smith  
Oregon Public Utility Commission  
550 Capitol Street, N.E.  
Salem, OR 97310

Bob Rowe  
Montana Public Service Commission  
1701 Prospect Avenue  
P.O. Box 202601  
Helene, MT 59620

Laska Schonfelder  
South Dakota Public Utilities Commission  
State Capitol  
500 East Capitol Street  
Pierre, SD 57501

Julia Johnson  
Florida Public Service Commission  
2540 Shumard Oak Blvd.  
Gerald Gunter Building  
Tallahassee, FL 32399

Brad Ramsey  
NARUC  
1100 Pennsylvania Avenue, NW, Suite 603  
P.O. Box 684  
Washington, DC 20044

L. Marie Guillory  
Jill Canfield  
National Telephone Cooperative Association  
2626 Pennsylvania Avenue, NW  
Washington, DC 20037

James Veileux  
VoiceLog LLC  
9509 Hanover South Trail  
Charlotte, NC 28210

Barry Pineles  
Regulatory Counsel  
GST Telecom, Inc.  
4001 Main Street  
Vancouver, WA 98663

Kenneth T. Burchett  
Vice President  
GVNW Consulting, Inc.  
8050 S.W. Warm Springs  
Tualatin, OR 97062

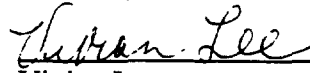
Susan M. Eid  
Richard A Karre  
MediaOne Group, Inc.  
1919 Pennsylvania Avenue, NW, Suite 610  
Washington, DC 20006

Genevieve Morelli  
Jane Kunka  
Qwest Communications Corporation  
4250 North Fairfax Drive  
Arlington, VA 22203

Richard M. Firestone  
Paul Feira  
Attorneys for TEL-SAVE COM Inc.  
Arnold & Porter  
5555 12th Street, NW  
Washington, DC 20004

Steven Hitchcock  
Neil S. Ende  
Attorneys for PriceInteractive, Inc.  
Technology Law Group LLC  
5335 Wisconsin Avenue NW, Suite 440  
Washington, DC 20015

**\*\*HAND DELIVERED\*\***

  
Vivian Lee

Robert M. Lynch  
Roger K. Toppins  
Barbara Hunt  
SBC Communications, Inc.  
One Bell Plaza, Room 3026  
Dallas, TX 75202

David Cosson  
Attorney for The Rural LECS  
Kraskin, Lesse & Cosson  
2120 L Street, N.W.  
Washington, DC 20037

Michael J. Travieso  
For the National Association of State  
Utility Consumer Advocates  
Maryland People's Counsel  
6 Saint Paul Street, Suite 2102  
Baltimore, MD 21202

Steven P. Goldman  
Vice President and General Counsel  
TelTrust, Inc.  
6322 South 3000 East  
Salt Lake City, UT 84121

Lawrence W. Katz  
Attorney for Bell Atlantic  
1320 North Court House Road, 8th Floor  
Arlington, VA 22201